

## Message Text

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ACTION SS-30

INFO OCT-01 ISO-00 /031 W

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P 231047Z OCT 73

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC PRIORITY 6267

S E C R E T SANTIAGO 5141

EXDIS

EO 11652: GDS

TAGS:

SUBJECT: COPPER

REF: SANTIAGO 4322

1. SUMMARY: YESTERDAY ORLANDO SAENZ DESCRIBED HIS TENTATIVE PLANS FOR SETTLEMENT WITH THE THREE U.S. COPPER COMPANIES. HE REQUESTED ME TO MAKE A SOUNDING TO SEE WHETHER HIS PLANS ARE SUFFICIENTLY IN TUNE WITH REALITY TO BE WORTH PURSUING. ACTION REQUEST: THE DEPT IS REQUESTED TO ADVISE ME HOW TO RESPOND TO SAENZ. END SUMMARY

2. LAST NIGHT ORLANDO SAENZ CAME BY TO TELL ME THE RESULTS OF CHILEAN EFFORTS IN THE U.S. ON ECONOMIC QUESTIONS. WHILE HE COVERED A HALF DOZEN SUBJECTS, HE SAID HIS CENTRAL CONCERN AND MOST IMPORTANT BUSINESS WAS TO DISCUSS COPPER. TAKING THE THREE CASES IN ASCENDING ORDER OF DIFFICULTY, SAENZ SAID HIS CONVERSATIONS WITH CERRO WERE HIGHLY POSITIVE. HE BELIEVES HE IS IN A POSITION TO GO TO THE JUNTA AND OBTAIN AUTHORIZATION TO CLOSE THE DEAL WITH CERRO - ESSENTIALLY ALONG THE LINES OF THE ARRANGEMENT PREVIOUSLY WORKED OUT BETWEEN CERRO AND THE ALLENDE GOVERNMENT. A FEW DETAILS WILL HAVE TO BE CHANGED, BUT NOTHING IMPORTANT. THE GOC IS ALSO PREPARED TO ENTER INTO A STRENGTHENED TECHNICAL ASSISTANCE AGREEMENT WITH CERRO WHICH WILL GIVE CERRO INCREASED RESPONSIBILITY AND AUTHORITY TO PUT ITS TECHNICAL JUDGMENTS INTO PRACTICE AT THE ANDINA MINE. SAENZ TOLD ME HE IS PREPARED TO SIT DOWN WITH CERRO AS SOON AS HE

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GETS JUNTA AUTHORIZATION AND WORK OUT THE FINAL AGREEMENT IN AN INTENSIVE THREE-DAY SESSION. HE ADDED THAT THE FIRST OF THE COPPER SETTLEMENTS WOULD BE IMPORTANT PSYCHOLOGICALLY, AND I AGREED.

3. ANACONDA IS A SOMEWHAT MORE DIFFICULT PROBLEM, BUT SAENZ BELIEVES IT CAN BE RESOLVED WITHIN THREE OR FOUR MONTHS. SAENZ'S CONVERSATION WITH QUIGLEY WENT WELL. SAENZ SEES TWO TECHNICAL AGREEMENTS AS IMPORTANT ELEMENTS IN THE SOLUTION. THE FIRST WOULD BE A TECHNICAL AGREEMENT WITH ANACONDA TO SOLVE THE CHEMICAL PROBLEM WITH THE EXOTICA ORE. IN THAT CONNECTION I NOTED THAT ZANSQUEVICH HAD TOLD ME A FEW DAYS BEFORE THAT THE CHE ZCAL PROBLEM WAS ESSENTIALLY SOLVED - WITH THE ASSISTANCE OF ANOTHER U.S. FIRM. SAENZ LAUGHED AND SAID THAT THIS MIGHT BE PARTIALLY TRUE, BUT IN ANY CASE, ANACONDA COULD BE MOST USEFUL IN SOLVING THE OVERALL TECHNICAL-ENGINEERING PROBLEM, AS DISTINGUISHED FROM THE CHEMICAL RESEARCH PROBLEM. MOREOVER, THE POLITICS OF THE THING WOULD MAKE AN ANACONDA ROLE MOST USEFUL. THE OTHER TECHNICAL PROBLEM ANACONDA COULD HELP WITH WAS THE DEVELOPMENT OF A VERY LARGE COPPER ORE BODY NORTH OF CHUQUICAMATA (EL ABRA). APPARENTLY THIS IS A COPPER PROJECT THAT HAS HARDLY BEEN TOUCHED. SAENZ BELIEVES THAT THE FOREGOING TWO PROJECTS SHOULD PROVIDE SUFFICIENT AVENUE TO WORK OUT SOMETHING WITH ANACONDA, WITH BENEFIT ENOUGH FOR BOTH SIDES, TO MAKE THE SETTLEMENT GO DOWN. ONCE THE GOC HAS A BASIC UNDERSTANDING WITH ANACONDA, SAENZ BELIEVES THE GOC CAN GO BACK TO THE COPPER TRIBUNAL (WHOSE MEMBERSHIP WILL BE RECONSTITUTED) ARGUING THAT MATHEMATIC ERRORS HAD BEEN MADE IN PREVIOUS FINDINGS. SAENZ SAYS THAT CHILEAN GOVERNMENT LAWYERS HAVE FOUND SUFFICIENT MATHEMATICAL ERRORS TO OPEN UP THIS POSSIBILITY. THE GOC'S IDEA WOULD BE THAT THE COPPER TRIBUNAL WOULD RATIFY AN UNDERSTANDING ALREADY REACHED IN OUTLINE.

KENNECOTT, IN SAENZ'S VIEW, IS THE HARD CASE. WHILE MICHAELSON WAS COURTEOUS AND UNDERSTANDING IN THEIR TALKS, IT WAS CLEAR THAT KENNECOTT'S POSITION IS BY FAR THE MOST INFLEXIBLE. KENNECOTT IS WILLING TO DELAY AND ACCOMMODATE THE GOC IN CONNECTION WITH THE EUROPEAN COPPER SUIT BY NOT INITIATING NEW ATTACHMENT PROCEEDING - BUT NOT TO WITHDRAW OR ABANDON EXISTING ONES. MICHAELSON ALSO OFFERED THE FIGURE OF \$600 MILLION  
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FOR A POSSIBLE SETTLEMENT. SAENZ REGARDS THIS AS TOTALLY UNREALISTIC. SAENZ WOULD HAVE IN MIND OPENING A NEGOTIATION WITH KENNECOTT BASED ON CHILEAN WILLINGNESS TO UPHOLD ITS OBLIGATION ON THE \$80 MILLION KENNECOTT NOTES PLUS INTEREST, AND ANOTHER \$80 MILLION, MORE OR LESS, AS PAYMENT FOR KENNECOTT'S EQUITY INTEREST. IN ADDITION, THE CHILEAN GOVERNMENT WOULD ASSUME THE MIXED COMPANY'S OBLIGATIONS UNDER THE EXPANSION PROGRAM. LASTLY, THE GOC WOULD BE PREPARED TO ENTER INTO SOME SORT OF TECHNICAL ASSISTANCE CONTRACT WITH KENNECOTT AT THE EL TENIENTE MINE (ALTHOUGH RICARDO CLARO, WHO WAS IN MEETING WITH MICHAELSON UNDERSTOOD THAT KENNECOTT WANTED NO PART OF THIS).

SAENZ SAID THAT HE WOULD BE PUTTING HIS PRESTIGE ON THE LINE WITH THE JUNTA GOVERNMENT IF HE UNDERTOOK TO NEGOTIATE A COPPER SETTLEMENT WITH THE THREE U.S. COMPANIES ALONG THE FOREGOING LINES. HE HAS TO RECOGNIZE, HE SAID, THAT MILITARY MEN -- AND PARTICULARLY MILITARY MEN NEW TO GOVERNMENT -- HAVE THEIR OWN WAY OF THINKING AND THEIR OWN WAY OF JUDGING RESULTS. IF, FOR EXAMPLE, HE HAD COME BACK FROM THE U.S. WITH AN ABSOLUTE REBUFF FROM THE U.S. BANKERS (RATHER THAN THE \$168 MILLION IN LINES OF CREDIT HE DID RETURN WITH (SANTIAGO 5139), HE WOULD HAVE BEEN DISCREDITED. SAENZ SAID HE DID NOT EXPECT SURE COMMITMENTS FROM THE U.S. GOVERNMENT OR FROM KENNECOTT BEFORE TAKING ON ACTION RESPONSIBILITY FOR THE COPPER PACKAGE. HOWEVER, HE DID WANT TO KNOW WHETHER THERE WAS SOME PROSPECT OF KENNECOTT MODIFYING ITS \$600 MILLION STANCE AND ENTERING INTO SERIOUS NEGOTIATIONS. WERE SAENZ'S IDEAS SUFFICIENTLY WITHIN THE BALLPARK TO MAKE THE EARNEST PURSUIT OF AN UNDERSTANDING WORTH WHILE? I SAID I WOULD PASS THESE QUESTIONS AND IDEAS ON TO MY COLLEAGUES IN WASHINGTON, AND TRY TO GET HIM SOME SORT OF SUBSTANTIVE REACTION.

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## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 11 MAY 1999  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** LITIGATION, COPPER, AGREEMENTS, MINING, NEGOTIATIONS, BANKS, MEETINGS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 23 OCT 1973  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1973SANTIA05141  
**Document Source:** ADS  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** n/a  
**Film Number:** P750018-1215  
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**Office:** ACTION SS  
**Original Classification:** SECRET  
**Original Handling Restrictions:** EXDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** SECRET  
**Previous Handling Restrictions:** EXDIS  
**Reference:** SANTIAGO 4322  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** golinofr  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 17 JAN 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <17-Jan-2002 by willialc>; APPROVED <12 FEB 2002 by golinofr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** COPPER  
**TAGS:** PGOV, EMIN, CI, US, XG, ANACONDA, (SAENZ, ORLANDO), (CERRO), (ALLENDE), (QUIGLEY), (ZANSQUEVICH), (KENNECOTT)  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005